

Montgomery County Council

From the Office of Council Vice President Roger Berliner

February 2, 2011

Contact: 240-777-7828

Councilmember Roger Berliner Calls for Restitution Fund for Pepco Ratepayers

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ROCKVILLE, Md., February 2, 2011—Montgomery County Council Vice President Roger Berliner today called for creation of a “restitution fund” for Pepco ratepayers after it was revealed that the utility had been charging customers since 2007 for electric service that was not provided.

“Yesterday, the Maryland Public Service Commission revealed the existence of a significant regulatory gap that ‘unwittingly eliminated a critical incentive to restore service quickly,’” said Councilmember Berliner. “Indeed, this gap allowed Pepco to collect what is likely to be millions of dollars from ratepayers for electric service that wasn’t provided since 2007—precisely the time frame in which Pepco’s reliability fell into the lowest quartile in the nation.

“The Commission is right to take action that will immediately eliminate this perverse disincentive to restore power quickly. But they should go one critical step further. They should create a ‘restitution fund’ out of these ill-gotten gains and provide immediate and direct rebates to consumers. Pepco should never have been given these dollars and they should be required to give them back—every dollar. Our residents have suffered enormously and this restitution fund is just one small step towards making it right.”

To view the Maryland Public Service Commission’s order acknowledging the regulatory gap, cut and paste the following URL address in your web browser:

http://webapp.psc.state.md.us/Intranet/sitesearch/whats_new/Case%20No.%209257%20Notice.pdf

A PDF of the order is pasted below:

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STATE OF MARYLAND



PUBLIC SERVICE COMMISSION

February 1, 2011

In the Matter of the Investigation into the *
 Justness and Reasonableness of Rates as *
 Calculated under the Bill Stabilization * Case No. 9257
 Adjustment Rider of Potomac Electric Power *
 Company *

**NOTICE INITIATING PROCEEDING
 AND NOTICE OF STATUS CONFERENCE**

To: Service List in Case Nos. 9092, 9155, 9217, and 9240

The Public Service Commission ("Commission") hereby initiates this proceeding to investigate whether the manner in which Potomac Electric Power Company ("Pepco") calculates the monthly rate as a result of its Bill Stabilization Adjustment ("BSA") Rider is just and reasonable. The Commission approved the BSA decoupling mechanism for Pepco in Case No. 9092, in July 2007, in order to "serv[e] multiple public policies:

First, it reduces risk and therefore reduces the Company's cost of capital. This reduction in the cost of capital redounds to the benefit of customers as is evident in the 50 basis point reduction in the return on equity authorized herein. Second, the BSA decouples the Company's revenue from sales of kilowatt hours. Thus, it removes a major disincentive to the Company's participation in the full deployment of demand-side management and energy efficiency programs. The enhanced deployment of such programs will enable customers to better control their electric bills. Third, the Bill Stabilization Adjustment will smooth out bill variations induced by weather extremes. This will aid customers in dealing with those months in which the weather is harsh and bills would be unusually high. Fourth, mechanisms similar to the BSA have been approved for all of Maryland's larger gas companies and have served customer interests well.

WILLIAM DONALD SCHAEFER TOWER • 6 ST. PAUL STREET • BALTIMORE, MARYLAND 21202-6806

410-767-8000

Toll Free: 1-800-492-0474

FAX: 410-333-6495

MDRS: 1-800-735-2258 (TTY/Voice)

Website: www.psc.state.md.us/psc/

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We therefore consider the deployment of such cost-effective programs to be a policy undertaking that the Commission believes will substantially inure to benefit ratepayers amid increasing costs of electric supply and growing reliability concerns.¹

The Commission has become concerned, however, that Pepco's BSA may be allowing the Company to recover revenues lost during extended outages, and thus may have unwittingly eliminated a critical incentive to restore service quickly. For example, a significant number of customers had interruption of service exceeding 24 hours in February 2010, July-August 2010, and in January 2011. Due to these interruptions, electricity sales for these months were reduced, but Pepco's current BSA Rider has allowed the Company to bill and collect the lost revenues from its customers. Before the Commission approved a decoupling mechanism for Pepco, Pepco assumed the risk of a decrease in monthly revenues due to major storms, such as occurred in the foregoing identified months. Decoupling has eliminated that risk, but may also have made the Company financially indifferent to the prospect of extended outages. To the extent that Pepco is being compensated for sales lost due to reliability failures, Pepco's BSA Rider may not result in just and reasonable rates. The Commission initiates this proceeding to investigate whether the BSA Rider, as currently in effect, is appropriate for the under- or over-collection of base rate revenues by Pepco, whether the calculations or determinant factors for calculating the BSA should be modified, and, if so, what modification(s) should be made.

Petitions to Intervene in this proceeding are due by February 17, 2011. An original and 17 paper copies, and an electronic copy, of the Petitions shall be submitted to Terry J. Romine, Executive Secretary, Maryland Public Service Commission, William Donald Schaefer Tower,


¹ Order No. 81517, Case No. 9092, at 81-82 (July 19, 2007).

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6 St. Paul Street, Baltimore, Maryland 21202. Five of the paper copies shall be three-hole punched. Persons are encouraged to submit the public version of the electronic copy via the Commission's "e-file" system, which can be accessed through the Commission's website, www.psc.state.md.us.

The Commission will convene a status conference on Tuesday, February 22, 2011 for the purpose of scheduling comments or testimony and further proceedings. The status conference will be held in the Commission's 16th Floor Hearing Room, William Donald Schaefer Tower, 6 St. Paul Street, Baltimore, Maryland, and will begin at 10 a.m.

By Direction of the Commission,

A handwritten signature in black ink, appearing to read "T. Romine", is written over a horizontal line.

Terry J. Romine
Executive Secretary